



STAFF REPORT

Meeting Date: August 4, 2020

To: Honorable Mayor & City Council

From: Eduardo Luna, City Auditor

Subject: Annual Audit Work Plan for Fiscal Year 2020/21

Attachments: 1. FY 2020/21 Audit Suggestions

INTRODUCTION

This item is submitted for consideration of the City Auditor's proposed audit work plan for FY 2020/21. The audit work plan identifies proposed audits for the upcoming fiscal year. It is anticipated that all audit work will be performed in-house. In addition, the work plan identifies the City Auditor's activity related to the implementation of the Trust & Innovation Portal.

DISCUSSION

Background

On July 16, 2019, the City Council reviewed and concurred with the first Annual Audit Work Plan for the Office of the City Auditor. The work plan identified eight performance audits and activity related to the Trust and Innovation Portal (TIP). During the current fiscal year, my office made progress in completing the work plan. However, due to the COVID-19 pandemic, the subsequent State of Emergency declaration, and redeployment of a Principal Performance Auditor to the Emergency Operations Center, I suspended ongoing audit work in mid-March 2020. Specifically, the following audit projects were temporarily suspended because of COVID-19:

- Management of Real Estate Assets (Report issued June 26, 2020)
- Beverly Hills Conference and Visitors Bureau (Report Writing)
- City Take-Home Vehicles (Not Started)
- Rodeo Drive Committee (Not Started)

Audit Resources

For FY 2020/21, the Office of the City Auditor is fully staffed with two Principal Performance Auditors¹. The Office of the City Auditor has 3,600 available audit hours to conduct performance audits, monitor outside audit engagements, and oversee the Trust & Innovation Portal. I should note that given the current budget situation, I plan to perform all audit work **in-house** and not rely on any external auditors or consultants. Given the uncertainty of the pandemic and its impact to City operations, it is more prudent to propose a six-month audit work plan for FY 2020/21. At mid-fiscal year, we can reassess the situation and propose an updated work plan for the remainder of the fiscal year. My recommendation is to undertake two to three performance audits for the first half of the fiscal year.

Proposed FY 2020/21 Audit Work Plan

Given that we are in a prolonged state of emergency, the City will have reduced revenues for the next 18 to 24 months, which will impact continued levels of service. In this environment, the City Auditor should be more forward looking, as opposed to auditing programs that operated in previous fiscal years. Many City programs may not operate in the same manner going forward, but rather exist virtually (e.g., online classes, payments and permitting) or possibly cease to exist.

As part of the conversation at the July 7, 2020 Audit and Finance Committee Liaison meeting, the Liaisons suggested the following audit categories based on the proposed audit projects:

- **Operational Efficiencies** – reviewing if the City is delivering services in the most cost-efficient manner possible;
- **High Dollar Exposure** – reviewing departments, services, programs, projects, etc. with high expenditures and determining if the outcomes are worth the investments; and
- **Enforcement** – reviewing enforcement efforts around City regulations such as code compliance and traffic enforcement.

The City Manager, and the group as a whole, also expressed an interest in reviewing the ways in which the City can improve and/or adapt its operations and service delivery during and after the COVID-19 emergency. A complete list of audits considered are shown in **Attachment 1**.

¹ The Principal Performance Auditor assigned to the Emergency Operations Center is working on business continuity and advanced planning. This assignment impacts the auditor's availability to work full-time on performance audits. Until the state of emergency is over, the auditor is only available 60 percent of the time to conduct audit work.

Based on the discussion, we are proposing the following three audits shown below:

Theme	Audit Objectives	Potential Risks	Areas for Review
Innovation <i>(Operational Efficiency)</i>	Assess if the City is properly positioned for adapting to the current changing conditions in the ways residents communicate, conduct business, and evolve around advancements in technology and eco-friendly products and services?	<ul style="list-style-type: none"> • The City will revert to pre-pandemic practices for service-delivery that are outdated and not the best models for post-pandemic realities. • The City may miss an opportunity to evaluate potential areas for innovation and improvements in service delivery. • The City is unaware of resident, staff, business, and other stakeholders' needs, including services needed, how those services should be delivered, and customer satisfaction regarding service delivery. 	<ol style="list-style-type: none"> 1. Analyzing the City's telework program, including whether policies have been established, costs and savings, worker productivity, technological capacity, etc. 2. Identify services that have or can transfer to an online/remote environment for service-delivery. For those services that have, assess the success and areas for improvement.² 3. Benchmark other cities to identify additional innovative approaches for creating a "Smart City" and compare the City's readiness. 4. Solicit public, staff, and business input via the Trust and Innovation Portal (TIP).
Traffic Safety <i>(Enforcement)</i>	Determine if the City's traffic safety program effective in its enforcement and oversight of public safety.	<ul style="list-style-type: none"> • The City does not consistently conduct traffic safety education and enforcement endangering public safety. • The City's resource capacity for traffic enforcement is limited. • Traffic enforcement is not focused on high risk areas. • Mechanisms for the public to address traffic violations are ineffective or of subpar customer service quality. 	<ol style="list-style-type: none"> 1. Review trends in citations for a given period. 2. Review staff time dedicated to traffic enforcement activities (e.g. unit staffing, court time, etc.). 3. Review incident data and reports for a given period to identify high risk areas.

² E.g. Plan Review, Permits, Online Payments, City Council Remote Options, etc.

Other ideas: <https://www.efficientgov.com/coronavirus-covid-19/articles/what-local-governments-should-consider-about-working-from-home-post-covid-19-aYSJ23D4c40Cx3mu/>

Themes	Audit Objectives	Potential Risks	Areas for Review
Potential for Savings <i>(High Dollar Exposure)</i>	Identify a high dollar expenditure categories that could be reduced and result in potential savings.	<ul style="list-style-type: none"> High dollar expenditures do not result in the intended return on investment, are not used as intended, or do not produce operational efficiencies. The City is not maximizing available financial resources and evaluating multiple sources of expenditures for potential savings. 	1. Based on auditor risk assessment and consultation with Finance and Policy and Management, select and review a high-dollar expenditure category and: <ul style="list-style-type: none"> a. identify the intended purpose of the expenditure(s) b. Assess the use relative to the purpose and costs

During the meeting, the Committee also discussed the issue of auditing police reform in the context of use of force and conducting a detailed zero based budget review of a department. Further, we determined going forward with the Take Home Vehicle Audit and Rodeo Drive Committee Audit was not the best use of audit resources at this time.

In addition, we are also undertaking the following on-going audit activity.

1.	Trust & Innovation Portal: Fraud-related complaints	Investigate allegations of potential fraud, waste, and abuse in City operations	Financial, Personal Integrity	Fraud
2.	Trust & Innovation Portal: Research Suggestions	Research suggestions for improving City government. Non-audit service under Government Auditing Standards	Economy & Efficiency	Other Services
3.	Recommendation Follow Up	Verify reported implemented recommendations	Compliance	Other Services

FISCAL IMPACT

There is no direct fiscal impact to carrying out the proposed annual audit work plan. Audit resources have already been budgeted to carry out the annual audit work plan. It is possible proposed audit work can result in future cost savings and/or increased revenue opportunities.

RECOMMENDATION

The City Auditor recommends that the Mayor and City Council review and provide direction on the Annual Audit Work Plan for FY 2020/21.

Eduardo Luna,
City Auditor

Approved By

Attachment 1

FY 2020/21 Audit Suggestions

New Ways of Doing Business	Department	Audit Type
1) Review of the tools needed for effective teleworking and assess the controls for appropriate oversight of telework operations. a) Number of employees teleworking b) Impact of teleworking on City facility space needs c) Long term benefits of teleworking	All	Economy and Efficiency
2) Survey of residents to assess impacts of COVID-19 pandemic on residents (see Attachment 2 , Excerpts of Resident Survey Results, Sacramento, CA)	All	Economy
3) Survey employees, businesses and residents for innovative ideas/improvements to city services. a) Examine new and innovative ways of doing business to prepare for future (streamline processes, social distancing, etc.) b) Adopt new ways of doing business and maintaining flexibility (e.g. virtual city hall)	All	Economy and Efficiency
4) Use of non-sworn personnel (e.g., ambassadors or social workers) to deal with homeless.	CS	Economy and Efficiency

FY 2020/21 Audit Suggestions

Fiscal Impact	Department	Audit Type
5) Review proposed FY 2020/21 budget and key assumptions i) Examine use of consultants	All	Fiscal
6) Undertake zero-based budget reviews of department budgets to identify opportunities for cost cutting.	All	Fiscal
7) Review of existing City services that can be automated, such cell phone reimbursement process, time and cost versus flat fee payments.	All	Fiscal
8) Audit of replacement and maintenance schedule for various programs. a. Technology/equipment, and licensing costs. b. Vehicles, c. Other equipment	All	Fiscal
9) Audit of the Police Department staffing and scheduling. a. Review growth of department budget over the last four fiscal years.	Police	Fiscal
10) Do all of our financial transactions have appropriate safeguards? Signature authority, two person oversight etc.	Finance	Economy and Efficiency
11) Accounts Receivable: Are we current on all money owed us? Both from individuals and governmental agencies.	Finance	Fiscal
12) Sole source procurement: To what extent do departments rely on sole source procurement? Do we pay an appropriate price?	Finance	Fiscal
13) Citywide overtime: Examination of management rights vs MOU rules. Citywide review of accrual use (related to overtime use for public safety)	All	Fiscal
14) Review of Procurement Card Program	All	Fiscal
15) Audit related party agreements, while some have operating agreements, the overall arrangements may not be fully documented (e.g. expectations re: purchasing rules, use of City facilities, etc.)	Other	Compliance

FY 2020/21 Audit Suggestions

COVID-19 Response and Protests	Department	Audit Type
16) Compliance auditing of FEMA reimbursement/cost recovery.	Finance	Fiscal
17) Audit of police use of force policies	Police	Compliance
18) Anti-bias police training	Police	Compliance
19) Were procurement processes followed when sourcing PPE and other equipment/materials for the COVID-19 response? For example, did the City purchase items from approved vendors? Did the City pay competitive prices for items purchased?	All	Compliance
Other City Processes	Department	Audit Type
20) Has the Metro process be done according to the rules we set? How many violations? How many repeat? How often are they shut down? Did we get all the money we should?	Public Works	Compliance
21) Restaurant streamlining planning process. How is it going? What percentage are within 7 days?	CS	Economy and Efficiency
22) Provide as needed assistance and research for City Council items.	All	